Look at the numbers

General Features

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Bill Dodwell considers the changes announced in the October Budget and Spending Review

Chancellor Rishi Sunak delivered his third Budget on 27 October, combining it with announcing the results of Spending Review 21, which sets departmental budgets for three years up to 2024/25. This article highlights some of the changes.

Investing in HMRC

HMRC will see a significant increase in its departmental budget under the Spending Review. The outturn for 2020/21 was £4.7 billion and the baseline for 2021/22 is

£4.8 billion. The amounts for the following three years are £5.9 billion; £5.5 billion and £5.2 billion, which represents real growth (i.e. after inflation) of 1.2% over the 2019/20 to 2024/25 period. Capital expenditure, which is included in the total budget, is set at £700 million in 2022/23, dropping to £600 million and then £500 million. This includes money for HMRC's digital systems:

'HMRC's settlement also continues the government's ambition to build a modern, digital tax system fit for the 21st century, by:

- extending Making Tax Digital, as previously announced, helping to make tax simpler for businesses and reducing the scope for errors. This is forecast to generate up to £1.6 billion in additional tax revenues by 2026/27; and
- providing a further £136 million investment over the SR21 period to deliver the Single Customer Record and Account. This will create a simpler, faster and better customer experience, allowing taxpayers to see and manage all their tax affairs in one place.

'SR21 delivers significant levels of investment to modernise HMRC's IT systems and improve the quality, resilience and security of its digital services, by providing £468 million over the next three years, building on the £98 million allocated in 2021/22, to reduce the risk of system failures, enhance the department's ability to defend against cyberattacks and support the continued digitisation and modernisation of the tax system.'

Tax advisers will note that Making Tax Digital is forecast to bring in an additional £1.6 billion over several years, which highlights the importance of the programme to HMRC and the government. This yield is thought to come from reducing the element of the Tax Gap attributable to taxpayer error. Delaying Making Tax Digital by a year 'costs' over £400 million.

The investment in the Single Customer Account and its enabling technology, the Single Customer Record, builds on £68 million awarded in 2021/22. The Office of Tax Simplification is a cheerleader for the new account, which should be the hub for all taxpayer/HMRC communicati on and reporting – and allow agent access to the same data. The account will start by combining the personal and business tax accounts, which should help anyone with a mixture of income from employment, self-employment or rental income. We hope that HMRC will be able to announce next year when it will start to make the account available and then have a roadmap for planned additions in functionality.

Budget numbers

In some ways, the best way to understand the Budget is to look at the numbers, which give us a sense of where taxes are being increased or reduced. Overall, the Budget (and other announcements since the March Budget) increases taxes by some £12-14 billion every year.

The big cost here is the new health and social care levy, which manifests in 2022/23 as an increase in national insurance and dividend taxation, before turning into the levy in 2023/24, when it is extended to earnings of those above state pension age. One of the fascinating numbers published is the reduction in yield as employers pass some of the costs on to employees. This is estimated at £2.5-2.8 billion annually, which reflects the obvious point that employers do pass on costs to employees in the form of reduced wages (probably reduced increases and/or bonuses) but also that employers in general have greater capacity to absorb an initial cost and spread the effect over several years.

Continuing Covid costs in the form of business rates relief were announced in the Budget. The increases in the annual multiplier will be frozen in 2022/23, which costs about £900 million annually. Additionally, increase due to property improvements will also be frozen from 2023/24, thus removing any disincentive to improve buildings. There will also be 50% rates relief for smaller retail hospitality and leisure businesses for 2022/23, costing £1.9 billion.

Basis period reform

Rather out of nowhere, HMRC issued a very short consultation on its plans to change the way in which self-employment income is taxed. The current year basis system was introduced in 1997 and provides that the results of the accounting period which ends in the tax year are the basis of the taxable profits (or loss) for that year.

From 6 April 2024, this simple rule will no longer apply. The change will not affect anyone who uses 5 April or 31 March as their accounting date – the majority of self-employed people. However, those using another accounting date – estimated at 570,000 – will need to apportion their profits to arrive at the amount taxed in a particular year. For example, a 30 June accounting date will mean that the taxable profits will be 3/12 of the profits in one year and 9/12 of the following year.

2023/24 will be a big transitional year, where the full profits of the accounting year ending in 2023/24 will be taxed (say, 30 June 2023 in our example) together with 9/12 of the profits for the year to 30 June 2024. Overlap relief will be off set against the apportioned profits and the excess will be taxed over five years, subject to an election to opt out of spreading.

The response document explains that any excess profits arising during the transition year will be as a one-off separate item of taxable income. This treatment will minimise the impacts on allowances and means-tested benefits – issues raised during the consultation. Loss relief arising due to excess overlap relief in the transition year may be carried back for three years, instead of the usual one, mirroring the rules on cessation.

Some businesses will need to submit estimated figures, since their year-end will mean that they will not have final accounting figures in time for the 31 January self-assessment filing deadline.

This is likely to affect businesses with year-ends from 30 September onwards but will actually depend on the complexity of the business and the potential need for an audit. The government will explore whether to introduce administrative or policy easements to minimise burdens caused by having to submit tax returns containing provisional figures, ahead of the transiti on year in 2023/24. The options being considered are:

- allowing taxpayers to amend a provisional fi gure at the same ti me as they fi le their return for the following tax year;
- allowing an extension of the filing deadline for some groups of taxpayers, such as more complex partnerships or seasonal trades;
- allowing taxpayers to include in the next year’s tax return any diff erences between provisional and actual figures in the previous year; and
- leaving the current rules on provisional fi gures unchanged, whereby profi ts can be esti mated in a return and amended as soon as fi nal fi gures become available.

It will be important for taxpayers and their agents to make sure they have details of overlap relief in advance of the transitional year. HMRC has not yet announced whether it will have a central facility for making figures available, where they have not been included on tax returns.

Some people may wish to change their accounting year to 31 March, so as to avoid future apportionments, adding to complexity and workload over the next couple of years.

This change is estimated to accelerate tax payments of about £1.7 billion and will also mean that HMRC and soft ware providers will not need to include overlap relief in their Making Tax Digital software.

OTS-recommended reforms

It is pleasing that two of the recent recommendations from the Office of Tax Simplification have been taken forward by the government in the autumn Budget.

The most important is extending tax relief for pension contributions made by low earners under the 'net pay' basis.

As many will be aware, the employer's choice of method for giving tax relief for employee pension contributions affects the amount arriving in the pension savings account. Individuals not paying tax – mainly because their earnings are below the personal allowance – get a basic rate top-up if the relief at source scheme is used. From 2024, that benefit will also be given to those on net pay arrangements. The delay appears to be due to the need to put systems in place and the top-up is not backdated.

The second recommendation turning into new law is extending the period for submitting the capital gains tax return on taxable sales of residential property from 30 days to 60 days, at a one-off cost of £60 million and an annual cost of £5 million. This change applies from Budget Day – 27 October 2021.

More simplification

The government has announced the reform of alcohol duty so that all drinks will be taxed in direct proportion to their alcohol content. To simplify the regime, the government intends to reduce the number of main rates from 15 to six, with common thresholds for each set of bands across product categories, and rates will be harmonised for drinks at 8.5% ABV or above. To encourage innovation, the government intends to introduce reduced rates for products below 3.5% ABV.

The government also intends to introduce a common small producer relief, so as to reduce the tax burden on smaller producers of wine, cider, spirits and made-wine below 8.5% ABV. Alongside this, a new relief that recognises the importance of pubs and supports responsible drinking will be introduced, with duty rates on draft beer and cider being cut by 5%. The reforms are subject to consultation and discussion with the EU in relation to Northern Ireland.

And finally…

The Department for Business, HMRC and the Treasury have launched a consultation on allowing foreign companies to re-domicile in the UK (see bit.ly/3oTsLzU). Several countries already allow this – and others are introducing this change to company law. Moving domicile is only effective when both the outgoing and receiving countries include the necessary legal provisions.